three existing plants in Zunyi and Qiandongnan have been selling well and demand has often exceeded supply. The construction of three dry-mix kilns is on schedule, two of which should be ready for trial run toward the end of 2002. This should increase our total capacity in Guizhou to around 1.5 million tonnes. Three grinding mills will also be established in the Zunyi and Qiandongnan area to enlarge the supply radius. On the development front, prospective acquisition targets in a number of strategic locations in the central and western parts of Guizhou are being considered. If successful, the acquisitions will enable your Group's operation to encompass most major cities in Guizhou Province.

Nanjing Operation

The Jiangnan Cement operation still incurred a loss as prices in the highly competitive markets around the coastal region did not show any improvement. However, less reliance was placed on exports to Australia and Ken On's operations in Hong Kong and Guangzhou. Management has also been examining ways to cut costs and enable the operation to become more competitive, including accelerating efforts to gain a bigger market share in the local Nanjing market as there are now signs of increasing activity.

Yau Tong Estate Phase 5 has won numerous awards in site safety and environmental management

CONSTRUCTION MATERIALS IN HONG KONG AND THE PEARL RIVER DELTA

Ready-Mixed Concrete - Ken On

The total volume of concrete consumed in Hong Kong in 2001 declined to around 6.5 million cubic metres, the lowest level since 1995. There is no sign of recovery yet, in view of the depressed property market and the scaling down of the public housing programme. Further depressing production, the summer of 2001 was one of the wettest on record. Ken On managed to produce 860,000 cubic metres of ready-mixed concrete and mortars, which represented only 90 percent of the volume in the previous year. Coupled with the continuing downward adjustment of selling prices, Ken On's financial results showed a decrease of 50 percent from the previous year. To prepare for the worsening market, Ken On has eliminated excess capacity and embarked on a plant rationalization exercise. Following the closure of the Cheung Sha Wan site after the expiry of lease in April 2002, Ken On is now operating five batching plants. One more plant is scheduled to be closed in the second half of 2002 and, together with the reduction of some 30 concrete mixer trucks, Ken On is well prepared for a further downturn in business.

The two batching plants in Guangzhou registered an 86 percent increase in output to 470,000 cubic metres. The new plant in the south-eastern part of Guangzhou, in particular, had a busy schedule meeting the orders from the Mass Transit Railway and the Guangzhou Convention Centre. The loss making position in the past few years was reversed, but profit generated was small due to continued competitive pressure. To meet the demand for concrete in the fast developing southern region of Guangzhou, the company is close to finalizing its search for an appropriate site for a third batching plant.

A rotary kiln of the cement plant in Kaili, Guizhou

At 30 June 2002, the outstanding order book of Ken On in Hong Kong was approximately 650,000 cubic metres, which should still allow for a relatively stable production in the year ahead.

Quarrying Operations

The rehabilitation of the Lamma Island quarry was completed and the site was returned to the government in December 2001. A major crushing plant and loaders have been established at Guishan Island, Zhuhai where crushed rocks, by-products of the site formation contract, fully replaced the Lamma Island production. Together with the two quarries in Chik Wan and Xinhui, total production of rocks and aggregates amounted to 3.5 million tonnes, roughly half of which was for Ken On's consumption. The market for marine armour rock became active during the year and a large part of the 850,000 tonnes produced was for the construction of the Lamma Power Station of Hong Kong Electric. Orders for the reclamation of Disney World and Container Terminal 9 are currently being negotiated and a large production of marine rock is expected to continue in the current year.

MATERIALS TRADING

Cement Import and Distribution

Overall, Hong Kong's cement import market was at a low ebb as a direct result of the depressed concrete market. Following the cessation of Far East Cement, the wholly-owned Shui On Cement Company Limited was formed in our building materials trading division as a trader and distributor of cement from Sumitomo Osaka Cement and our Nanjing cement plant. During the year, 365,000 tonnes of cement was handled, of which 80 percent was for Ken On's various operations.

Asia Materials

Asia Materials' network of business centres in the Chinese Mainland was being established to enable it to reach the large domestic building materials market, and to source quality products for export from one of the world's largest production bases.

During the year, Asia Materials succeeded in securing exclusive agency rights for a number of quality products. It has also contracted with design houses and started developing branded lines, including furniture and lighting products, which will give better profit margins. While the U.S. and European markets remained its focus, Asia Materials' exports to new markets such as Japan and the Middle East are making headway. It has also been importing materials for manufacturers and construction projects in the Mainland with an eye on building a supply chain with key customers.